Speech

Central bank digital currency and the singleness of money

Remarks by Governor Ida Wolden Bache at the 22nd BIS Annual Conference in Basel, Switzerland on 23 June 2023. The remarks were given as part of a panel discussion on the topic "What is the remit of central banks?"

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First, thank you for the invitation to take part in this distinguished panel.

The task we are given here today is a broad one, to discuss the remits of central banks. Several topics come to mind. The effort to bring inflation down is obviously high on most central banks' agendas these days. This task confronts us with a challenging balancing act. As we tighten monetary policy, we must weigh the short-term costs of lost output against the risk of de-anchoring inflation expectations. Furthermore, we must preserve financial stability. To me, what stands out as most important in the light of the past year's experience, is to stick to our core mandate, and importantly, to explain to the broad public how by doing so we are contributing to the welfare of society.

Looking ahead, monetary policy will be tested further by the necessary efforts to combat climate change. In the transition from one energy system to another, we should prepare for a potentially higher frequency of negative, and possibly more persistent, supply side shocks originating in the energy market. Moreover, higher carbon prices will imply changes in relative prices that are necessary signals to achieve transition. In my view, forward-looking inflation targeting provides a sound framework to manage these challenges.

Although all these issues deserve a much deeper discussion, I will allocate my remaining time here today to an even more fundamental remit. One that can be seen as a precondition for the other goals we are striving to fulfil. That is to ensure the singleness of money, meaning that all representations of our unit of account trade at par value, and that parity is doubted by none. Without the singleness of money our ability to control inflation may be severely impaired or entirely lost.

As you all know, a unit of account has two main representations available to the public: cash supplied by the central bank – outside money – and deposits created by commercial banks – inside money. These payment assets exist side by side because they each have their competitive edges across different payment situations.

For decades now, the singleness of money has been taken for granted in most developed economies. But in recent years, we have seen developments that could challenge the singleness of money. The first is the declining use of cash, and the second is the emergence of new forms of private assets with potential to serve as money.

Let me discuss them in order.

In some countries, bank deposits have now become so convenient to use for all kinds of payments that cash is becoming marginalised.

The potential demise of cash raises the fundamental question of whether public access to central bank money is a necessary anchor to ensure the singleness of money and trust in the monetary system. If that is the case, and if central bank money in the form of cash is no longer in demand, the central bank has no choice but to introduce a new, and hopefully more attractive, variant.

But we should also ask whether the safety net that is established around bank deposits could be sufficient to maintain trust? The net consists of banking regulation, deposit insurance and the central bank's lending of reserves as settlement asset between banks. It may be argued that central bank reserves, not cash, are the key to ensure the singleness of money. Even though we still have cash in my country, fewer and fewer people hold it. From our point of view, it is not inconceivable that the system could work without it.[1]

The second potential threat to singleness is the new potential forms of money: Crypto currencies that represent their own units of account, and stablecoins which piggyback on existing national units of account. While neither of them is important as payment assets as of now, this may change in the future. Tokenisation of different types of assets may, for example, lead to increased demand for tokenised money for settlement.

If the new types of money can offer better functionality than our current money, their popularity may increase also for payments in the real economy.

If programmability turns out to be something people really want from their money, and supply is allowed to develop freely, it may threaten the singleness of money. It may lead to several units of account being used in parallel within a country, or a more fragile parity between different representations of the same unit of account.

So how do we, as guardians of the singleness of money, best meet these potential challenges? It seems to me that we have different strategies to choose from:

One is to expand the regulatory perimeter to include the new forms of money.

Another strategy is to develop retail CBDC. If the problem to be solved is the potential demise of cash, CBDC can be designed as digital cash with less emphasis on new functionality. If, instead, the motivation is to meet competition from new forms of money, CBDC must offer functionality similar to that of privately issued tokens.

A third way is to meet competition from new forms of money through cooperation within the established two-tier banking system. To enable this, it might be necessary to offer wholesale CBDC in the form of tokenised reserves that can settle transfers of tokenised bank deposits.[2]

Each of these strategies have their pros and cons, beyond my short discussion here. Furthermore, they need not be mutually exclusive.

Let me sum up with a few concluding points. First, preserving the singleness of money is a fundamental prerequisite for monetary policy to be able to address our current and future challenges. Second, I think protecting the singleness of money is a key justification for considering CBDC. Third, I think new, privately issued payment assets could be a more serious threat to singleness than the potential demise of cash. Finally, we must consider carefully whether retail or wholesale CBDC is the most efficient response, or if other measures are better suited to do the job. In any case, our mission is to ensure that the singleness of money endures.

Thank you for your attention.

Footnotes

[1] Even though cash usage is low, cash is still important for a secure and efficient payment system, particularly through contributing to payments contingency and financial inclusion.

[2] Norges Bank is assessing whether to introduce a form of CBDC. However, no decision has been made.